

Wednesday, February 10, 2016

FX Themes/Strategy/Trading Ideas

- Today, Yellen's appearance (1500 GMT) before the House Financial Services committee will be closely monitored for Fed cues with markets on the lookout for any wavering in its outlook for the economy, inflation and its anticipated interest rate trajectory.
- Elsewhere, any sustained risk aversion (including uncertainty surrounding EZ banking sector counters and soggy commodities/equities) should continue to channel interest towards the EUR, CHF, and JPY at the expense of the cyclicals.
- Structurally, investors are expected to remain vexed over the shifting global correlations across asset markets while trying to square this theme with the significant bull flattening across most global curves. **In the interim, we gravitate towards risk-off trades and selectively stay selectively engaged in "weak dollar" views.**
- With risk aversion still in full swing and the broad dollar complex increasingly looking undermined, we undertake a tactical short **USD-JPY** on Wednesday. With a spot ref at 114.50, we target 111.30 with a stop placed at 116.15.
- With commodities consolidating and the broad dollar likely on the defensive in the near term, we undertook a tactical long **AUD-USD** on Friday. With a spot ref at 0.7188 on Thursday, we target 0.7435 and place a stop at 0.7060. Note however that this recommendation was subsequently stopped out on Monday with an implied -1.81% loss as risk aversion took a bite out of global markets.
- Elsewhere, our 04 Feb 16 recommendation to be short **USD-CAD** (spot ref: 1.3760) was also stopped out at 1.3950 on Monday for an implied -1.36% loss as oil dripped lower.

Asian FX

- In the near term, Asian currencies may continue to balance the risks from the broad dollar's weakened state and risk aversion. Over the weekend, China's foreign reserve drop in January did not surprise significantly on the dovish side and should continue to temper any potential negatives while the USD-CNH has remained suppressed thus far this week. As such, the **ACI (Asian Currency Index)** may be content to seek lower for a second consecutive session today.

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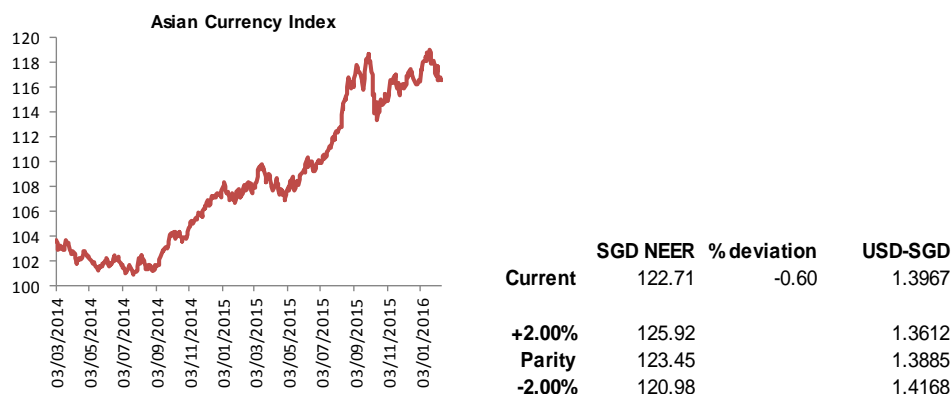
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- USD-SGD has relinquished post-NFP gains in the last two sessions with the **SGD NEER** this morning trading around -0.60% below its perceived parity (1.3885). NEER-implied thresholds are a touch firmer relative to last Friday with the -2.00% lower boundary of the NEER fluctuation band estimated at around 1.4168. At this juncture, the SGD may respond to the weaker dollar dynamic with the next way point expected towards the 200-day MA (1.3917). Technically, this moving average has not been violated since Sep 2014 and a breach may be telling in terms of the broader damage wrought on the USD strength narrative.



Source: OCBC Bank

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- **EUR-USD** Although ECB officials may still be attempting to underscore their dovish monetary stance, the current Risk-Off attitude of investors may continue to prop up the common unit. Note however that any aggravation of investor concerns towards EZ financials may dilute the EUR’s resilience. Back-end interest rate differential arguments and short-term riskies meanwhile continue to argue for a supported EUR-USD profile. Watch for the next resistance at 1.1400.
- **USD-JPY** Expect investors to stay top heavy on the pair if sentiment remains fragile with rate differentials and short-term riskies unambiguously favoring JPY strength in the interim. The next significant support is expected into the 114.00 level.
- **AUD-USD** Background doubts towards the dollar may cushion any risk aversion-inspired USD weakness in the near term. Signals from rate differentials and short-term riskies favor a sell rally stance in the pair in the near term with the floor at 0.7000 the one to watch.
- **GBP-USD** The pair may remain buffeted by potential brewing negativity towards the EUR and fluctuating dollar dynamics. In the interim, rate differentials and short-term riskies seem to preclude and excessive upside headroom for the pair at this juncture with 1.4500 expected to anchor in the near term.

FX Trade Ideas

	Inception	B/S	Currency	Spot	Target	Stop/Trailing stop	Rationale	
1	08-Jan-16	B	EUR-USD	1.0888	1.1560	1.1045	Risk of Fed/dollar "disappointment"	
2	04-Feb-16	S	USD-SGD	1.4158	1.3915	1.4280	Dollar may stumble further post-Dudley	
3	10-Feb-16	S	USD-JPY	114.50	111.30	116.15	Risk aversion + weakened dollar narrative	
STRUCTURAL								
4	29-Dec-15	S	USD-JPY	120.25	113.45	123.70	Japanese macro and flow fundamentals may continue to argue for a flat to softer USD-JPY	
5	03-Mar-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	29-Dec-15	15-Jan-16	B	USD-CAD	1.3886	1.4520	Central bank policy dichotomy in addition to structurally soft crude	+4.38
2	08-Jan-16	19-Jan-16	S	AUD-USD	0.7056	0.6950	Fragile global/equity/commodity/RMB backdrop	+1.47
3	18-Dec-15	19-Jan-16	S	GBP-USD	1.4909	1.4195	Broad dollar strength post-liftoff may be expected to continue to have traction against GBP	+5.03
4	21-Dec-15	21-Jan-16	S	USD-JPY	121.15	117.45	Disappointment towards a less dovish than expected BOJ	+3.06
5	10-Nov-15	21-Jan-16	B	USD-CAD	1.3276	1.4390	USD strength vs. weak crude	+7.75
6	04-Jan-16	01-Feb-16	B	USD-SGD	1.4229	1.4240	Asian FX weakness, RMB jitters	+0.01
7	21-Dec-15	02-Feb-16	S	GBP-USD	1.4917	1.4409	Negative chatter surrounding BREXIT and sustained dissipation towards BOW hawkishness	+3.56
8	05-Feb-16	08-Feb-16	B	AUD-USD	0.7188	0.7060	Dollar in retreat, consolidating commodities	-1.81
9	04-Feb-16	08-Feb-16	S	USD-CAD	1.3760	1.3950	Dollar on the defensive, stabilizing crude	-1.36

Source: OCBC Bank

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